

Internal Audit Report

**DEPARTMENT OF RECREATION AND PARKS
BUSINESS TYPE OPERATIONS AUDIT
OCTOBER 2020**

Office of the County Auditor





OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA
County Auditor

October 2020

The Honorable Members of the County Council
The Honorable Calvin Ball, County Executive

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted an audit of business type operations at the Department of Recreation and Parks. This report contains recommendations we believe will improve accountability and compliance with applicable policies.

This report has been reviewed with the Chief Administrative Officer and we have included the Administration's response. We wish to express our gratitude to the Department of Recreation and Parks for the cooperation and assistance extended to us during the course of this engagement.



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EXECUTIVE SUMMARY

We conducted a performance audit of business type operations of the Department of Recreation and Parks (DRP). The objectives of our audit were to:

1. Review internal controls over receipts and disbursements for selected business type operations.
2. Determine if DRP separately identifies and classifies revenues and expenditures for individual business type operations.
3. Determine whether each business type operation is self-sufficient or subsidized by other County revenues.
4. Determine if business type operations are properly accounted for in the County's financial records.

Conclusions

For the audit objectives, we found that:

1. Internal controls over revenues and disbursements for the business type operations we tested were adequate.
2. The Department of Recreation and Parks does not separately identify revenues for each of its business type operations in the County's financial records. Expenditures are not always charged to the correct business type operation.
3. Although DRP prepared monthly financial information, the information was not complete and accurate. As a result, we could not determine the financial status for the business type operations we included in the audit.
4. The County's financial records properly account for DRP's business type operations reviewed.

BACKGROUND

The Department of Recreation and Parks (DRP) organizes and operates recreation programs throughout Howard County. It maintains parks, playgrounds, and other facilities. It is responsible for planning and coordinating parkland development and implementing natural resource protections and management practices. The Department of Recreation and Parks also preserves historic sites and provides environmental education opportunities to the community.

The Department of Recreation and Parks offers some services without a fee to the general public but recognizes that most activities require the recovery of some or all operational expenses. It also recognizes that demand for all services exceeds the County's ability to appropriate general funds to support the demand, making it necessary to charge fees.

Third party software, ActiveNet, is used by DRP to process receipts for its programs. Those expenditures are recorded directly in SAP.

As noted above, DRP operates facilities around the County offering a variety of services. We selected five of these business type operations as detailed below:

- **Belmont Manor and Historic Park** - Built in 1738, the Country purchased the property in 2012. The Manor hosts an array of events, including weddings, rehearsals dinners, business meetings, holiday parties, anniversary parties, retirement parties, bat/bar mitzvahs, retreats, and bridal showers. Belmont also offers a variety of programs open to the public for a fee (such as afternoon tea).
- **Waverly Mansion** - Listed on the National Register of Historic Places, Waverly Mansion is open for special programs and for tours by appointment. It functions as a facility for weddings, parties, and meetings under a contract with a third-party vendor.
- **Robinson Nature Center** - This is a unique nature education facility situated on 18 acres of land adjacent to the Middle Patuxent Environmental Area. The Center runs over 420 programs each year including field trips, public programs, birthday parties, and home school and scout programs.
- **Roger Carter Community Center** - This is a state-of-the-art community center that includes a swimming pool, splash pad, basketball and volleyball courts, classrooms, fitness and exercise rooms with cardio and strength training equipment, and a climbing wall.
- **Patapsco Female Institute and Historic Park** - Founded in 1837, the stabilized ruins of the Greek revival structure are open for tours and serve as a setting for special events including weddings, receptions, camps, and open-air theatre.

FINDINGS AND RECOMMENDATIONS

Finding

We could not determine the self-sufficiency of the Department of Recreation and Parks' business type operations.

We could not determine the self-sufficiency for individual business type operations. The County's accounting software (SAP) did not always separately reflect revenue for each business type operation, and DRP expenditures were not always allocated to the appropriate business unit, as detailed below.

Although DRP prepared basic financial information monthly (revenues and expenditures to date), we could not use this data to determine the financial self-sufficiency for the business type operations we reviewed. Specifically, we could not ensure completeness and accuracy of reported revenues and expenditures. Additionally, DRP had not developed any formal procedure to use any financial information to manage each business type operation. Sources for the financial information included ActiveNet for revenue and SAP for non-payroll related expenditures.

Revenues:

The audit disclosed that revenues for each business type operation we reviewed could not be identified in SAP. We found that only two of the five business type operations included in the audit (Robinson Nature Center and Belmont) had a unique SAP revenue source code. The revenue for the remaining three units is included with other DRP revenue in generic source codes (such as Recreation and Parks Self-Sustaining).

On a weekly basis, DRP submits spreadsheets to the Department of Finance (Finance) for reconciling to revenue received. Finance then posts the revenue to SAP. For the two business type operations with unique SAP revenue source codes, the revenue in SAP did not agree to the internal DRP financial information. For example, for Fiscal Year 2018, revenue according to ActiveNet exceeded revenue in SAP for the Robinson Nature Center by \$56,537. The Department of Recreation and Parks staff could not readily explain this difference, and they advised that they have been working with ActiveNet to more accurately identify revenues by specific program and provide direct reporting of revenues to SAP.

Expenditures:

We found that services benefitting the individual business type operations included in our review were often charged to another unit. For example, for FY 2018, we determined that over \$67,000 in expenditures relating to Belmont were charge to other units, usually the Parks-Horticulture business area. We determined that the expenditure benefitted Belmont based on the description

of the service included in SAP and by reviewing the related invoices. Examples of services provided to Belmont but not charged to the specific business type operation included landscaping, mowing, plants and pond maintenance. In addition, SAP did not include sufficient detail for us to evaluate if there were other expenditures that should have been charged to these business units.

We recommend that DRP work to ensure the accuracy and completeness of financial information for all business type operations and use this information to assist in determining financial viability of its programs.

We also recommend that DRP, in conjunction with the Department of Technology and Communication Services (DTCS) and ActiveNet, continue its efforts to identify all revenue for each individual business type operation and program and report this information directly to SAP. We also recommend that until it can directly report revenue data to SAP, DRP reconcile revenue its records with revenue recorded in SAP.

We additionally recommend that DRP institute procedures to ensure that all expenditures are charged to the most appropriate function code based on the goods or services received.

Administration's Response:

Revenue

The Department maintains function numbers for approximately 80-100 programs and facilities (and provides many more classes and activities which fall into these function numbers). Revenue information is recorded in ActiveNet (DRP's automated registration system). This data is reported daily to the Department of Finance and is used to update SAP which includes about 10-15 revenue source codes (the ActiveNet revenue codes are rolled up into the SAP codes as appropriate). The Department of Finance is still responsible for reconciling bank deposit information to SAP revenue and working with our Department on any discrepancies. The process has worked out well and has been in place for about 6 months.

Expense

In addition, the DRP records direct program expenses by the same function number. This includes direct class and activity contingent worker payroll, supplies, and contract staff. Each month the Department generates financial data for each of the Functions and provides that information to staff via the Shared T drive.

The Department's position for costs incurred by other Divisions within DRP or by other County Departments is that allocating these expenses would also require an allocation of budgeted funds for those services (such as tree removal, landscaping) to be placed in the function. We believe this would be challenging either within the DRP or County-wide.

The Department maintains revenue and direct expenses for over 80 unique programs/operation function numbers as well as hundreds of recreation classes and park activities. This information is used to prepare internal financial data by function number, programs, and activities. This information is provided to DRP management responsible for program oversight. The Department will consider the feasibility of allocating other Division expenses to function numbers.

The Horticulture and Land Management Division is budgeted in the General Fund to provide mowing, landscaping, and planting services for parks and community centers located throughout the county. Belmont is a park that has extensive horticulture and landscaping maintenance needs. Belmont's maintenance needs are budgeted similarly to the other park facilities through the Division of Horticulture and Land Management.

Waverly Mansion:

Finding

The Department of Recreation and Parks did not receive monthly revenue reports or additional payments as required by the contract for the operation of Waverly Mansion.

In July 2010, the County entered into a contract with a third-party vendor to provide property management, event planning, and catering services at Waverly Mansion. The contract term was one year with options for 19 annual renewals.

The contract requires that the vendor pay a monthly fee of \$2,000. In addition, the contract requires the vendor to prepare and submit monthly a detailed report that lists all revenue for the month and pay the County the monthly fee plus a percentage share of gross revenue of 5 percent when gross revenue exceeds \$40,000. While the vendor made the monthly fee payment, it had not prepared the required monthly report or made any additional payments since the inception of the contract. Due to the lack of any financial data, we could not determine the amount of additional payments due under the contract, if any.

We recommend that DRP request the required monthly reports since the inception of the contract. We further recommend that DRP collect any amounts due based on those reports. Finally, we recommend that DRP ensure that future reports and any amounts due are received timely.

Administration's Response:

We concur. The DRP did not properly execute the contract and receive the monthly revenue reports or the additional payments as required by the contract for the operation of Waverly Mansion. The contract was executed under a previous administration; therefore, we are unable to

corroborate the specifics of why the terms were not met. Moving forward, DRP will periodically review department contracts to ensure the terms and conditions are being met.

The DRP and the vendor mutually agreed to terminate the contract and Waverly Mansion operations have been performed by the Department since August 2019.

Finding

The Department of Recreation and Parks did not assess or collect late charges on those monthly fee payments which weren't remitted in a timely fashion.

The contract between Howard County Government and the Waverly Mansion vendor states that the monthly rental payments are to be made in advance, on the first day of each calendar month. The contract allows for a late charge equal to 10 percent plus default interest equal to 12 percent per annum for each day that such payment remains due and unpaid. Our audit disclosed that for Calendar Year 2018 the vendor did not make any payments by the first of each calendar month. However, DRP did not assess either penalties or interest. We calculated the penalty and interest payments to total \$2,525 for the year.

We recommend DRP assess late fee penalties and interest for payments not made as required by contract.

Administration's Response:

We concur. The Department of Recreation and Parks did not assess or collect late fees as stated in the contract. The DRP is unable to corroborate the specifics why the vendor was not assessed late fees. The DRP will review department contracts periodically to ensure terms and conditions are being met.

Policy Issue:

In conducting our audit, we attempted to determine the financial status of the business type operations we selected. That is, we wanted to determine if each operation's revenue met or exceeded the related costs of the operation. While DRP captured certain financial information specific to revenue and expenditures of DRP, we found that many services provided to DRP and the business type operations were paid by other departments and not allocated to DRP. For example, utility costs and maintenance are paid by the Department of Public Works. The County does not have a process to allocate these costs to all user departments. Other types of services, such as information technology services provided by DTCS, are charged to user departments but are not allocated to the functional area reviewed in this audit. The responsibility and methodology for allocating of these types of costs is outside the control of DRP.

We recommend that County Administration, in conjunction with other applicable County departments, determine the costs/benefits and feasibility of allocating costs to user departments, especially those departments that provide and charge for services rendered.

Administration's Response:

Administration will explore the cost benefit and feasibility of allocating costs to user departments, especially those departments that provide and charge for services rendered.

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

We conducted a performance audit of five business type operations within the Department of Recreation and Parks.

We conducted our audit in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States. Those auditing standards require us to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to:

- Review internal controls over receipts and disbursements for selected business type operations.
- Determine if DRP separately identifies and classifies revenues and expenditures for individual business type operations.
- Determine whether each business type operation is self-sufficient or subsidized by other County revenues.
- Determine if business type operations are properly accounted for in the County's financial records.

To accomplish our objectives, we met with DRP staff responsible for operation and oversight of the revenue and disbursement processes and Finance staff responsible for the accounting of these revenues and expenses in the financial records. We reviewed receipts, invoices, and related contract documents. We performed tests designed to ensure revenue was properly collected and disbursements were proper. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

Management is responsible for establishing and maintaining effective internal control. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

We conducted our field work from August 2018 through March 2019, prior to the Covid-19 pandemic. This pandemic has significantly impacted DRP's operations and may impact our findings and recommendations, as certain facilities may be closed or operating with reduced services. The Administration's responses to our findings and recommendations are included in this report.